

Contractors Face More Scrutiny,

Pinched Purses

Democrats Vow to Examine Large Deals

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After riding high for five years, government contractors are bracing themselves for increased oversight, tighter budgets and stepped-up regulations as Democrats take over on Capitol Hill and vow to keep a closer eye on how companies spend taxpayer dollars.

Every company that does business with the government could feel the impact, but contractors that benefited most from work in Iraq and Afghanistan, from homeland security initiatives or from Hurricane Katrina are especially likely to be under the microscope. Big-ticket weapons programs are also expected to garner special attention, and it may become more difficult to get a no-bid contract, according to industry observers.

"The pendulum has clearly swung back in a hard way," said David Nadler, an attorney for government contractors with the Dickstein Shapiro law firm. "Everything contractors do is going to be subject to scrutiny. They need to understand that they're in a different environment."

Most incoming chairs of congressional committees have not said specifically which contracting areas they intend to scrutinize. But the Government Accountability Office, Congress's investigative arm, gave Hill leaders some ideas earlier this month.

In a 44-page look at areas in need of oversight, GAO investigators focused substantial attention on contractors. The government spent \$388 billion on contracts last year, the GAO said, and much of that money is exposed to "potential waste and misuse" because of the way the government buys goods and services.

Meanwhile, congressional workers are getting ready. In September, the Project on Government Oversight, a watchdog group, began holding seminars for Hill workers of both parties on how to conduct investigations, including sessions on the anatomy of a government contract and skits in which oversight hearings were acted out. About 150 people have attended the sessions, said Jennifer Gore, the group's spokeswoman.

"Younger staff members were not quite sure what Congress's role is," she said. "We knew they needed to get a review on what congressional power really is, how it works, and why it's so important."

Richard Moorhouse, a contracting attorney with Greenberg Traurig, said he is advising clients with high-visibility contracts to be ready to testify on Capitol Hill at a moment's notice.

"They should be preparing themselves," Moorhouse said.

Increased oversight is not the only potential change. Analysts say spending priorities are likely to shift, especially at the Pentagon, where growth has already begun to slow.

During the past few years, the defense industry has been shielded from significant cuts by supplemental spending bills Congress passed to pay for the wars in Iraq and Afghanistan. But now, some of the military's largest weapons programs may be in danger of being scaled back.

"In general, Democrats prefer people to weapons in their military outlays," said Loren Thompson, a defense industry consultant and chief operating officer of the Lexington Institute, an Arlington think tank. "What that means is that when they are going to buy weapons, they think first of the Army. Those are the soldiers, those are the war fighters."

Some contractors have already begun to feel the difference. After the Sept. 11, 2001, attacks, contractors were rewarded for proposing cutting-edge systems that pushed the technological envelope. But after repeated cost overruns and delays with those high-risk ideas, safer solutions are back in vogue. Earlier this month, Boeing won a coveted \$15 billion helicopter program using an updated version of its 50-year-old, war-tested Chinook.

"The notion that comprehensive networking and cutting-edge sensors can solve our military problems has been confounded by the experience of Iraq," Thompson said.

Perhaps sensing the changing environment, Lockheed Martin recently began giving presentations on the state of the defense industry, arguing that military spending is a small part of the gross domestic product.

That logic may prove a tough sell with Democrats who campaigned for office this fall on a platform of cleaning up corruption that has been intertwined with contractors. Former Republican representative Randy "Duke" Cunningham (Calif.) pleaded guilty to taking bribes from contractors, and Halliburton became a favorite target of Democrats who thought Republicans were reluctant to scrutinize the politically connected firm's billions of dollars of work in Iraq.

"One thing you can be assured of is that we will do aggressive oversight," said Rep. Bennie Thompson (D-Miss.), who is set to lead the Homeland Security committee.

Rep. Henry A. Waxman (D-Calif.), a frequent critic of Halliburton, is to become chairman of the Government Reform Committee in January, and he has indicated that he plans to introduce legislation to put contractors on a shorter leash. His Clean Contracting Act is aimed at curbing no-bid deals, limiting the use of subcontractors and closing loopholes that Waxman says open

the door to abuse.

Rep. Janice D. Schakowsky (D-Ill.), meanwhile, plans to revive legislation that would require more oversight of military contractors in Iraq. "This Iraq experience has made the case for aggressive monitoring of contractors," Schakowsky said. "This is a foggy area where billions and billions of taxpayer dollars are being spent, and we have no sense of how or what they are spending or doing."

Industry groups are fighting greater regulation, arguing that such proposed laws would hamstring contracting officers and prevent the government from getting goods and services when it needs them.

"Many Democrats have had the impression, and they are feeding the impression, that contracting is a process that is fundamentally broken. But there's not a scintilla of evidence that that is the case," said Stan Soloway, president of the Professional Services Council, an industry trade group.

Soloway said he welcomes closer scrutiny of the industry but only under certain conditions.

"It could be largely political, or it could be part of a very substantive look at a very complex set of processes," Soloway said. "If it's the latter, it might be beneficial. If it's just about 'gotcha,' it will exacerbate the problems."